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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002167

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SUBJECT: WANG ON SPECIAL DEFENSE BUDGET, PRC CONTACTS

Classified By: AIT Director Douglas Paal, Reason(s): 1.4 (B/D)

11. (C) Summary: In a May 13 meeting with the AIT Director, Legislative Yuan President Wang Jin-pyng said that the KMT is committed to early action on the Special Defense Budget, but warned that James Soong and the PFP may continue to block the budget. Wang said he has secured support from KMT Chairman Lien Chan and would engage Soong after his return from the PRC, but Wang cautioned that Soong might have promised Beijing that the PFP will continue to block the budget. Wang assessed that prospects for cross-party reconciliation were set back after President Chen Shui-bian's attacks on his political opponents in the week leading up to the May 14 National Assembly election. Wang said that despite Lien's public statement that he has not ruled out the possibility of meeting Chen, "in his heart," Lien does not want to see Chen. Wang said it is in the KMT's electoral interest to put party-to-party relations with the CCP ahead of reconciliation with the DPP government. End Summary.

Prospects for Cross-Party Reconciliation

12. (C) In a May 13 meeting with the AIT Director, Legislative Yuan (LY) President Wang Jin-pyng, a candidate in the mid-July KMT Chairman election, said that the Democratic Progressive Party (DPP) government should not have rejected so readily the "Six Points" that People First Party (PFP) Chairman James Soong negotiated with PRC President Hu Jintao. Wang said that even if the government cannot accept Soong's reformulation of the "1992 Consensus," it should at least not rule out Soong's statement as a basis for future dialogue. Wang added that Chen Shui-bian's volatile personality continues to complicate cross-party reconciliation. He pointed out that Chen's recent criticisms of former President Lee Teng-hui and Soong will only make it more difficult for Lee and Soong to justify to their supporters continued cooperation with the DPP. Noting that the February 2005 Chen-Soong meeting had already alienated each party's core supporters, Wang asserted that the PRC might yet succeed in pressuring Soong to distance himself from Chen. Wang said that he has heard that Chen's attacks on Lee and shift to the political center may result in 16 fundamentalist DPP Legislators defecting to the TSU in the coming weeks.

13. (C) Wang pointed out that although KMT Chairman Lien Chan does not have the difficulties that Lee and Soong have, President Chen's attacks on Lien's speech at Beijing University have also taken a toll. Wang claimed that Lien had initially decided that he would meet with Chen but has had a change of heart since Chen's attack on him in the final week leading up to the National Assembly (NA). Wang told the Director that although Lien has publicly stated that he does not rule out the possibility of meeting with Chen, privately Lien is not so inclined.

14. (C) When the Director asked if it were in the KMT's electoral interest to continue boycotting the DPP government while focusing on party-to-party relations with PRC leaders, Wang replied in the affirmative. Wang said that pursuing economic cooperation with the PRC is precisely what the KMT needs to do in order to erode the DPP's advantage among key constituencies, such as farmers and small businesses. Wang said that the KMT will continue to negotiate with the PRC for concessions on the export to the PRC of Taiwan agricultural products and easing restrictions on PRC tourist visiting Taiwan. Wang said that the KMT will seek to use the KMT-controlled Provincial Farmer's Association to negotiate agricultural liberation with the PRC, bypassing the government's Council of Agriculture (COA). Wang said that if the DPP wanted to support these measures, Chen could potentially claim credit. However, Wang said that Chen is unlikely to endorse any initiative he did not personally craft.

Special Budget

15. (C) Wang told the Director that he spoke to KMT Chairman Lien Chan about the Special Defense Budget at length on May 16. He said he told Lien that the entire weapons acquisition package needs to remain intact and be funded via a special budget. Wang said that Lien agreed that early LY action is needed. Wang contrasted the KMT's position by warning that

James Soong and the PFP are likely to seek further delays in LY action. Wang said that before Soong departed on his PRC trip he had asked to see Soong to discuss the special budget but Soong told him that he would not be in a position to discuss the budget until after the NA election. With only a few more weeks left in this LY session, Wang said that it was unlikely that the LY will take any action, even moving the budget bill out of the Procedure Committee. He said he is calling for the LY to go into an extraordinary session, but for reasons not entirely clear, the PFP and TSU are opposing the suggestion. Wang downplayed the significance of the budget's failure to clear the LY Procedure Committee, arguing that once a cross-party consensus has been secured, moving the budget through the various LY committee would be quick and a matter of formality.

16. (C) Wang said he believes that Soong did promise President Chen the PFP would cooperate with the DPP on passing the Special Budget after the NA election. However, Wang warned that Soong may have made a secret deal with the PRC not to support the Budget. The Director told Wang that Taiwan would be sending a very negative signal to the United States if the LY failed to take any action on the Special Budget during the current session, especially if passage during a summer extraordinary session is still in doubt. He said that while the U.S. supports cross-Straits dialogue, in order to achieve positive results with the PRC, it is essential to negotiate from a position of strength.

Comment: Grim Outlook

17. (C) Wang's comments on both the prospects for the Special Defense Budget and future cross-party reconciliation were not encouraging. The current dynamics in Taiwan's political world make it all too easy for one of the many moving parts to clog up the entire system. If there is no quick return to cross-partisan talks after the May 14 NA election, we could be in for another period of political gridlock. AIT reminded Wang that Washington is tiring of partisan gamesmanship and will be looking for all sides to take real action on the Special Defense Budget and cross-Straits policy.

PAAL